

A PLACE TO CALL HOME

The Crisis in Housing for the Poor

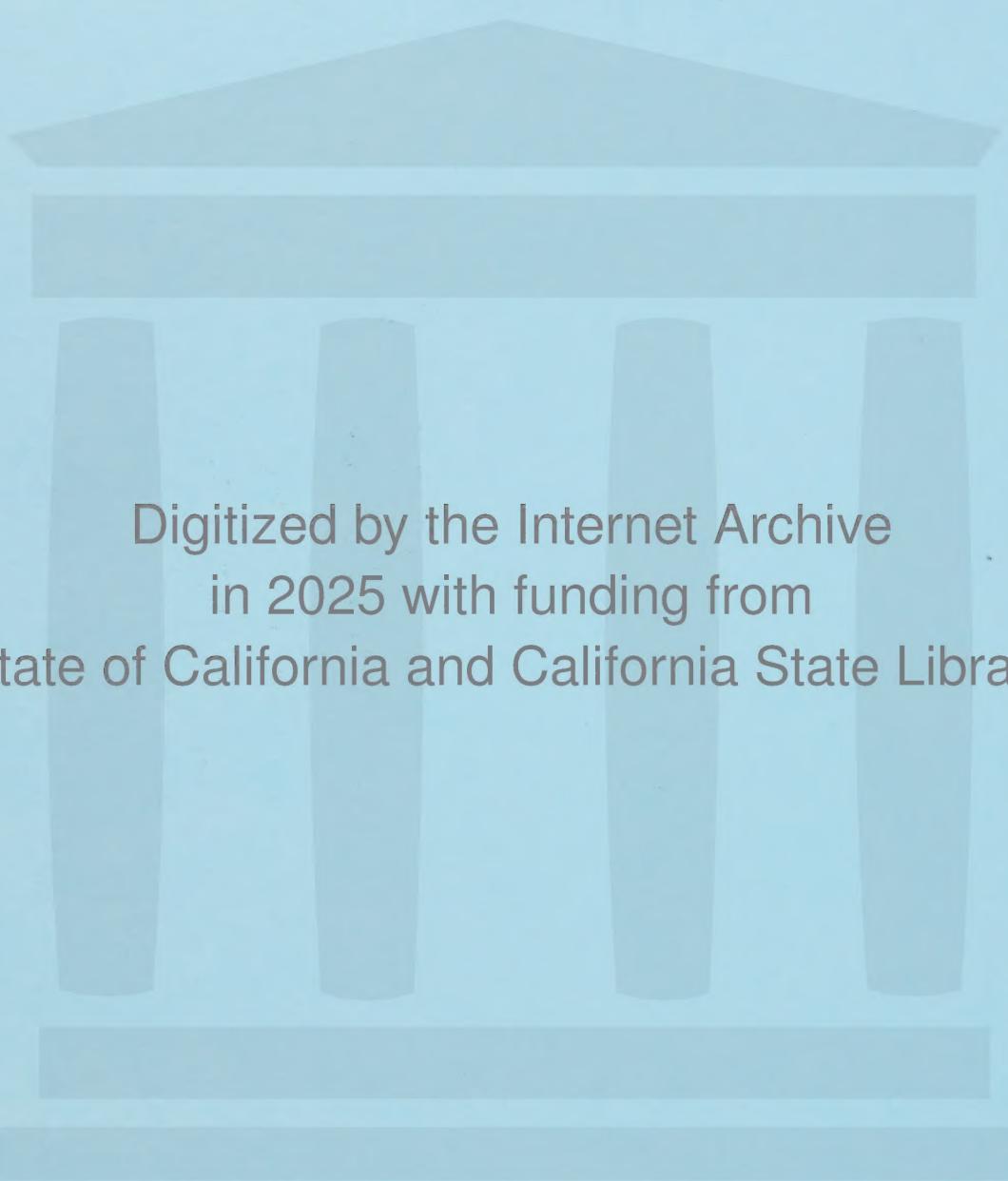
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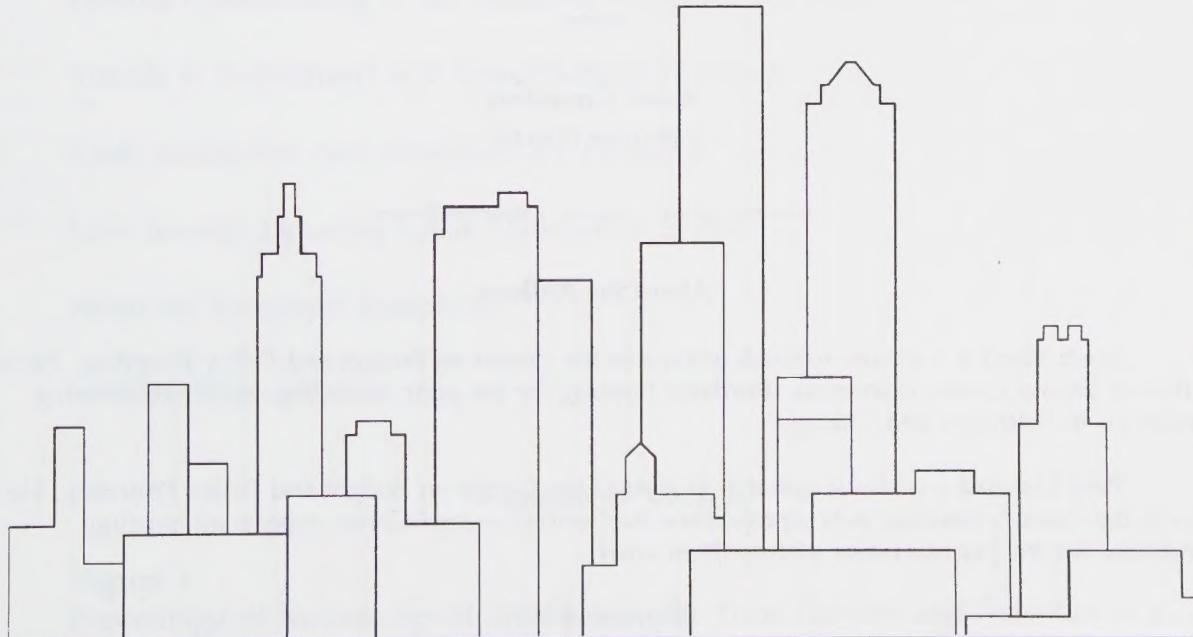
The Crisis in Housing for the Poor

Los Angeles, California

Mark Sheft

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Center on Budget and Policy Priorities
Washington, D.C.



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Preface

The riots in Los Angeles have rekindled strong interest in the problems of our nation's urban areas. One aspect of these problems that merits particular attention is the severe shortage of decent, affordable housing for low income families.

In response to the riots in Los Angeles, the Center on Budget and Policy Priorities has prepared this study on housing conditions in the Los Angeles metropolitan area. The Los Angeles metropolitan area is defined by the Census Bureau as Los Angeles County, including the cities of Los Angeles, Long Beach, Pasadena, Pomona and Burbank.

This study is one in a series issued by the Center on Budget and Policy Priorities on low income housing conditions in metropolitan areas across the United States. This series complements a report on national housing conditions, *A Place to Call Home: The Low Income Housing Crisis Continues*, released by the Center and the Low Income Housing Information Service in December 1991. Together, these reports depict a low income housing crisis that is national in scope, affecting every region of the country.

The report's findings are based primarily on data from the American Housing Survey, 1989, published in December 1991. The AHS is sponsored by the U.S. Department of Housing and Urban Development and is conducted by the Bureau of the Census of the U.S. Department of Commerce. The 1989 AHS report provides data specifically on the housing conditions faced by households with income below the federal poverty line.

Acknowledgments

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The authors claim sole responsibility for the contents of this report.

A Place to Call Home: Los Angeles, California

Under standards established by the U.S. Department of Housing and Urban Development, housing is considered affordable if it consumes no more than 30 percent of a household's income.¹ Yet data issued by the U.S. Bureau of the Census and HUD show that in 1989, nine out of 10 poor households in the Los Angeles metropolitan area paid more than 30 percent of income for housing costs. The Los Angeles area includes the cities of Los Angeles, Long Beach, Pasadena, Pomona and Burbank, and the balance of Los Angeles County.

There were 2,978,700 households in the Los Angeles area in 1989, with a total of 8.3 million people. Some 292,000 households — one of 10, containing 922,700 people — were poor.² (The poverty line varies by family size; for a family of three, it was \$9,885 in 1989.)

More than half of all poor households in the metropolitan area — 51 percent, or 149,200 households — lived in the city of Los Angeles. Some 43 percent — 124,600 households — lived in Los Angeles County outside of the cities of Los Angeles and Long Beach. The remaining six percent resided in Long Beach.

¹ Until 1981, housing was considered affordable by HUD if it consumed no more than 25 percent of adjusted household income. This standard was raised to 30 percent in conjunction with federal budget reductions enacted in 1981. Adjustments to household income include deductions for dependent children, handicapped or elderly family members, and excessive health or child care costs, among others. Cost burden figures for this report come from the Census Bureau's American Housing Survey, which includes cost estimates based on unadjusted income figures only.

² A household consists of all people who occupy a housing unit. A household may consist of a single family, one person living alone, two or more families living together, or any other group of related or unrelated people who share living arrangements. A housing unit is "a house, an apartment, a group of rooms, or a single room occupied or intended for occupancy as separate living quarters." A household is considered poor if the total income of all household members is below the poverty line for a household of that size.

Three of four poor households in the Los Angeles metropolitan area — 217,200 households — were renters; the remaining 74,800 were homeowners. Both groups confronted serious housing affordability problems.

Housing Cost Burdens

Housing affordability problems in the Los Angeles area are extremely severe. Nearly all poor renters in the Los Angeles area — 95 percent — paid at least 30 percent of income for housing (including rent and utilities) in 1989. *This proportion was higher than in any other metropolitan area.* Significant numbers of poor renters spent even greater portions of income for housing.

- Three of every four poor renters — 77 percent or 137,400 households — spent *at least half* their income on housing costs in 1989.
- The typical poor renter household spent 77 percent of income for housing. This means that half of the poor renters paid less than 77 percent of income for housing, but the other half paid more than this.³

Poor homeowners in the Los Angeles metropolitan area were also hard-pressed. Some 61 percent of all poor homeowners spent at least half of their income on housing. Three of four — 76 percent — spent at least 30 percent of income on housing.⁴

While the affordable housing crisis is national in scope, it is particularly acute in the Los Angeles metropolitan area. Some 51 percent of poor households nationwide — including both renters and homeowners — spent at least half their income for housing in 1989, but 74 percent of the poor households in the Los Angeles area did.⁵

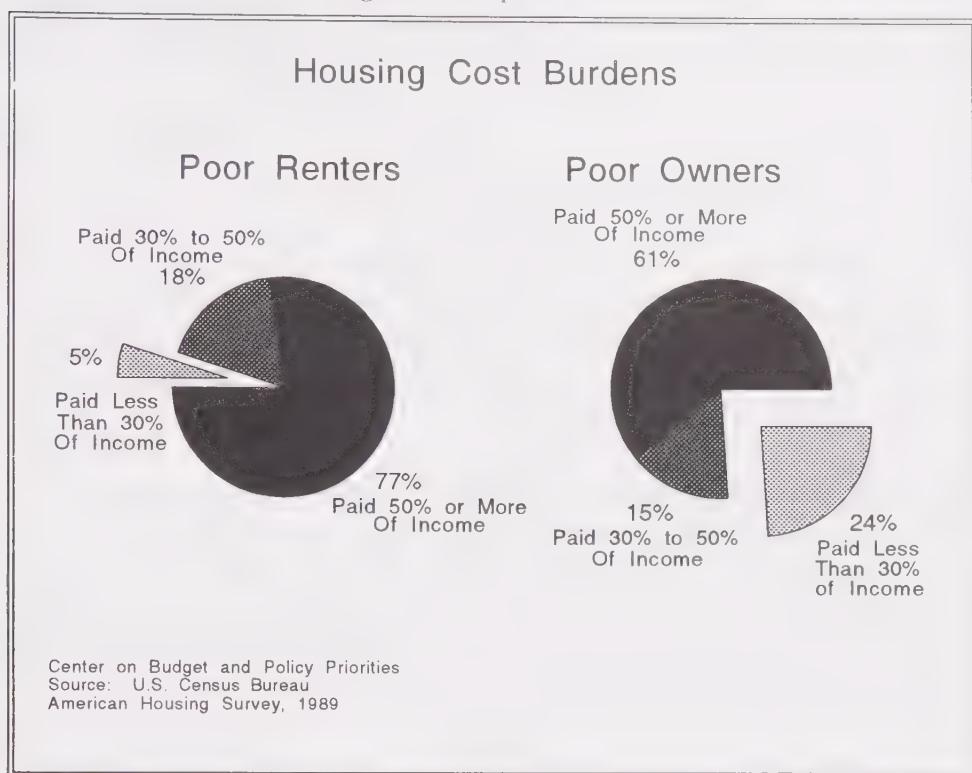
³ The Census Bureau report includes a number of renters who reported that they paid no cash rent or who had zero or negative income. These households are not included in Census calculations of housing costs as a percentage of income. To be consistent with the Census report, these households are excluded in similar calculations in this report.

⁴ The Census Bureau report includes a number of homeowners who did not report the amount of their mortgage payment or who reported that they had zero or negative income. These households are excluded from Census calculations of housing costs as a percentage of income. To be consistent with the Census report, these households are excluded from similar calculations in this report.

⁵ The questionnaire used to gather national data in the American Housing Survey for 1989 differs from the questionnaire used to gather Los Angeles data in several respects, including questions on housing costs and housing costs as a percentage of income. The revised questions on housing costs used in the national survey result in lower estimates of these costs than the questions in the Los Angeles area survey. Consequently, comparisons of published data from the 1989 national AHS with AHS data from the Los Angeles survey are likely

(continued...)

Figure 1
Percentage of Income Spent on Housing By Poor Renters and Poor Owners,
Los Angeles Metropolitan Area, 1989



These high housing cost burdens leave large numbers of poor households with little income for other living expenses. Many poor households in the area are able to pay their housing bills each month only by squeezing funds for other necessities.

As a result, significant numbers of poor households can be considered at risk of homelessness. These are households that pay extremely large percentages of their limited incomes for housing — and that could face substantial difficulties in continuing to pay rent and utility bills if a disruption or large drop in income occurred, or if a large unexpected expense such as a sizable medical bill arose. The Census Bureau data on which this report is based do *not* cover most of those households who are already homeless.

⁵(...continued)

to overstate the difference between housing cost burdens in Los Angeles and the nation. Still, the data indicate that the housing cost burdens confronting poor households in the Los Angeles area are more severe than those facing poor households nationwide.

Housing Cost Burdens Confronting Poor White, Black and Hispanic Households

Housing affordability problems in the Los Angeles area are colorblind. An overwhelming majority of *poor* white, black, and Hispanic households face high housing cost burdens.⁶ (Although Asian and Pacific Islander households represent a large minority group in the Los Angeles area, there are no published data from the American Housing Survey on the housing conditions this community faces; as a result, no data on this group are cited in this report.)

- In the Los Angeles metro area, substantial proportions of poor white, black and Hispanic households alike spent at least half of their income on housing costs in 1989. Some 76 percent of poor white households had housing cost burdens of this magnitude, as did 73 percent of poor black and Hispanic households.
- Even larger proportions of poor white, black and Hispanic households spent more than 30 percent of their income on housing costs, thereby exceeding HUD's affordability standard. In 1989, some 91 percent of poor whites, 85 percent of poor blacks, and 94 of poor Hispanic households spent at least 30 percent of income on housing costs. (See Table I.)

Table I
Housing Cost Burdens of Poor Households
By Race, Los Angeles-Long Beach Area, 1989

	<u>Poor White Households</u>	<u>Poor Black Households</u>	<u>Poor Hispanic Households</u>
Spent 50 percent or more	76%	73%	73%
Spent 30 percent or more	91	85	94

These figures suggest that poor white households in the Los Angeles area endured housing cost burdens as severe as those borne by poor blacks and Hispanics. Nevertheless, the black and Hispanic communities were more heavily affected by

⁶ The American Housing Survey provides detailed information on black and Hispanic households, but not on white households. The figures presented here for "white" households actually refer to all *non-black, non-Hispanic* households. Some 86 percent of these non-black, non-Hispanic households in the Los Angeles area are non-Hispanic whites. The remaining 14 percent are largely of Asian or Pacific island descent. Some may also be Native American.

problems associated with poverty and high housing cost burdens because minority households were much more likely than white households to be poor. The poverty rate among black households in the Los Angeles area was 14 percent in 1989; among Hispanic households, it was 15 percent. By contrast, seven percent of white households were poor. While minorities constituted 37 percent of all area households in 1989, they accounted for 55 percent of the *poor* households.

Overcrowded Housing

In addition to high housing cost burdens, many poor households in the Los Angeles area live in overcrowded housing. According to standards established by HUD, housing is deemed overcrowded if it houses more than one person per room.

- In 1989, one-quarter of all poor households in the Los Angeles area — 24 percent — lived in overcrowded housing. *This rate was higher than in any other large metropolitan area in the nation.*
- Nationwide, eight percent of poor households lived in overcrowded quarters in 1989. Poor households in the Los Angeles area were three times as likely to live in overcrowded quarters as were poor households nationwide.
- Overcrowding is concentrated among poor renters, who account for 92 percent of the poor households living in overcrowded housing in the Los Angeles area.

Overcrowding was particularly severe among Hispanic households in the Los Angeles area.

- Two of every five poor Hispanic households — 41 percent — lived in overcrowded quarters in 1989. The incidence of overcrowding, although not insignificant, was less striking among poor blacks and whites. Some 13 percent of poor white households and 12 percent of poor black households lived in such conditions.
- Hispanics represented 39 percent of all poor households in the Los Angeles area but accounted for 67 percent of the poor households living in overcrowded housing.

Housing Crisis in Los Angeles Area Unlikely to Have Improved Since 1989

The shortage of affordable housing in the Los Angeles metropolitan area is likely to have grown more severe since these data were collected in 1989. With the onset of the recession, unemployment in Los Angeles County rose from 5.5 percent in 1989 to 5.8 percent in 1990 and 8.0 percent in 1991. Unemployment remains high in 1992, averaging 8.7 percent through the first four months. The poverty rate in the area is virtually certain to have increased as unemployment climbed, swelling the number of poor renters looking for low cost housing and tightening the squeeze in the low rent housing market.

- In fact, the proportion of *non-poor* Hispanic households living in overcrowded housing — 25 percent — was nearly twice as great as the proportion of *poor* non-Hispanic households living in such conditions, which stood at 13 percent.

Physically Deficient Housing

A substantial number of poor households in the Los Angeles area live in housing that is physically deficient. The proportion of poor households living in physically inadequate housing far exceeds the proportion of households in higher income groups that face these conditions.

- Some 13 percent of the poor households in the Los Angeles metropolitan area — or 36,800 households — lived in housing with moderate or severe physical deficiencies in 1989.
- By contrast, six percent of the non-poor households lived in housing units with such problems. Poor households thus were twice as likely as non-poor households to live in physically inadequate housing.
- Nationwide, 18 percent of all poor households lived in physically deficient housing — making poor households in Los Angeles less likely than poor households nationally to live in these conditions.
- Nearly nine out of ten poor households occupying substandard housing units in 1989 — 89 percent — were renters.

By other measures as well, poor households were more likely to live in housing units with problems. While poor households made up 10 percent of all area

households, they occupied 27 percent of units with holes in the floor, 32 percent of units with rooms that lacked electrical outlets, and 19 percent of the units with evidence of rats or with severe physical problems.

In addition, poor households in the Los Angeles area were somewhat more likely than non-poor households to live in homes that were built before 1950 and consequently were likely to contain lead-based paint.⁷ In 1989, two of five poor households (including both renters and owners) — 43 percent — lived in buildings constructed before 1950, compared with 32 percent of the non-poor households.

Factors Contributing to the Housing Crisis for the Poor

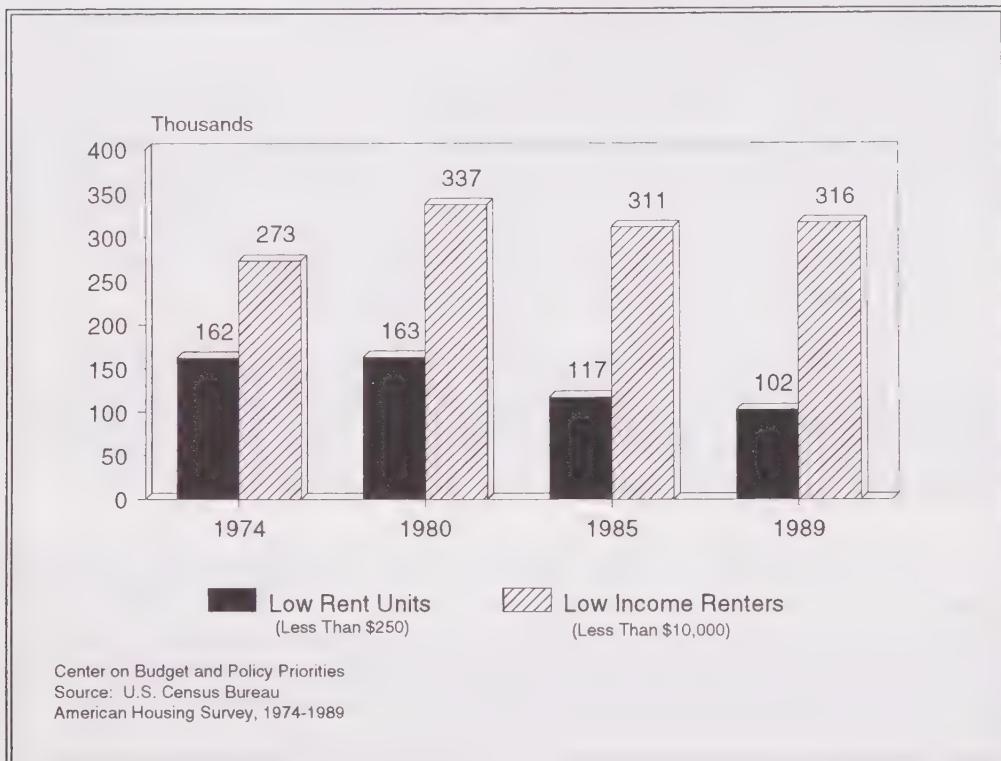
The housing crisis facing low income households in the Los Angeles metro area can be attributed to a decline in recent years in the number of low cost rental units available in the private market, housing cost increases that substantially outpaced income gains, and cutbacks in federal housing assistance.

From 1974 to 1989, the median income of renter households in the Los Angeles area increased six percent, after adjusting for inflation. Yet the increases in housing costs in California's surging real estate market dwarfed this income growth. During the same 15-year period, the median cost for rental housing *increased 35 percent*, after adjusting for inflation, or nearly six times as much as renter incomes. As a result, housing cost burdens for renters — the percentage of income paid for housing — climbed substantially.

Increases in housing cost burdens were particularly sharp for low income renters. In recent years, the inventory of low cost rental housing in the metro area contracted severely while the number of low income households increased. The result was a sharp rise in the shortage of affordable housing. The growing shortage forced low income renters to pay steadily higher percentages of their income for housing.

⁷ According to a report by the Public Health Service, "lead poisoning is one of the most prevalent childhood diseases and the most prevalent environmental disease of children in the United States. Childhood lead poisoning is totally preventable." Regarding exposure to or consumption of lead, the report finds that "major health effects of severe lead poisoning include coma, convulsions, profound irreversible mental retardation and seizures, and death. Even low levels of exposure can result in impairments in central nervous system function, including delayed cognitive development, reduced IQ scores, impaired hearing...and growth deficits. In adults, lead in the blood may interfere with hearing, may increase blood pressure and, at high levels, may cause kidney damage and anemia." Public Health Service, U.S. Department of Health and Human Services, *Promoting Health/Preventing Disease: Year 2000 Objectives for the Nation [draft]*, pp. 8-6/7, September 1989.

Figure 2
 Rental Housing Shortage in the Los Angeles Metro Area
 for Households Earning \$10,000 or Less, 1974-1989
 (in 1989 constant dollars)



In 1974, the metro area already faced a shortage of 110,800 low cost rental units. There were 273,000 low income renter households, but only 162,200 low-rent units. (See Figure 2.) By 1989 the shortage had nearly doubled, rising to 213,500 units. (Low income renters are defined here as those with incomes below \$10,000, as measured in 1989 dollars; low rent units are those renting for less than \$250 a month, as measured in 1989 dollars. The \$250 monthly rent level represents 30 percent of a \$10,000 income.)

- Between 1974 and 1989, the number of low income renter households increased by 43,000, from 273,000 units to 316,000. But this increase in the level of need was accompanied by a precipitous drop in the number of low rent units. The number of such units plunged by 60,200, from 162,200 low rent units in 1974 to 102,000 in 1989. Virtually all of this decline occurred during the 1980s.
- By 1989 there were 213,500 fewer low rent units than there were low income renter households in the Los Angeles metro area, the second

largest shortage of any metro area in the nation. Only New York had a larger shortage.

Moreover, there were more than three low income renters in the metro area in 1989, for every low cost rental unit. By this measure the low rent housing shortage was greater than in all but five metro areas nationwide. (Three of these other five metro areas are also in California.)

In addition, of the 102,000 units renting for \$250 or less in 1989, nearly one-third were occupied by renters with incomes *above* \$10,000, while another 5,900 were vacant, in many cases because they had severe physical inadequacies, were boarded up, or had structural defects posing health and safety hazards. As a result, only 63,500 of the 316,000 low income renter households — 20 percent — lived in units with costs of less than \$250 per month.

Trends in Subsidized and Unsubsidized Housing

The growth in the shortage of affordable housing during this period occurred despite expansion in the stock of subsidized rental housing. Each year, Congress appropriates funds to provide housing assistance to additional low income families. Combined with ongoing housing subsidy commitments to families already receiving assistance, the new commitments result in a steadily growing supply of subsidized rental units. Between 1974 and 1989, the number of subsidized low cost units in the Los Angeles area increased by 41,900, to 57,000.⁸

The number of *unsubsidized* low rent units, however, declined by 86,400 — twice the increase in the subsidized housing stock.⁹ Thus, two units of privately owned unsubsidized housing were lost for every one unit of subsidized low cost housing added to the inventory. This loss can be attributed to several factors. Some affordable units were abandoned, demolished, or converted to nonresidential uses; a modest number were converted to subsidized rental housing. In addition, the strong real estate market in the 1980s persuaded some low-rent property owners to renovate their units for operation as upscale rental housing or condominiums.

⁸ In 1974, there were approximately 15,100 subsidized low cost units; by 1989, this number had grown to 57,000. Subsidized units include both units in public housing projects and units with rent subsidies from federal, state, or local government sources.

⁹ In 1974 there were 125,900 unsubsidized low cost rental units. By 1989, the number had dropped to 39,500. These figures do not include vacant units; data that separate vacant rental units into subsidized and unsubsidized units are not available. There were approximately 21,200 vacant low cost rental units in 1974 and approximately 5,900 in 1989. Thus, the 86,400 unit decline in the number of unsubsidized low cost units understates the decline in the number of such units.

This development underscores a key point: to prevent the already serious shortage of affordable housing from worsening, the number of housing units for which government subsidizes the rent must rise as fast as the number of unsubsidized low rent units diminishes. This failed to occur largely because the federal government sharply reduced its commitment to low income housing in the 1980s.

- From fiscal year 1977 through fiscal year 1980, HUD made commitments to provide rental assistance to an average of 290,000 additional low income households each year nationwide. From fiscal year 1981 through 1992, however, the number of additional housing commitments dropped to an average of 78,000 per year, a reduction of nearly three-fourths.
- Had the number of additional housing commitments remained at the same average annual level from 1981 through 1992 as in the late 1970s, some 2.5 million more low income households nationwide would be receiving housing assistance today.
- Furthermore, the national recession — which hit California particularly hard — propelled the state government into fiscal crisis as depressed revenue collections and increased demand for services produced a large budget deficit. To help balance its fiscal year 1992 budget, California slashed funding by more than 25 percent for affordable housing programs and emergency housing programs for the homeless.

Therefore, government assistance provided through subsidized housing programs is currently unavailable to most poor households. In the Los Angeles area, just one-fifth of all poor renters received housing assistance from any federal, state, or local government source in 1989. In only three of the nation's 44 largest metropolitan areas was the proportion of poor households that received housing assistance this low.

Cash Assistance Not Adequate for Housing

Several forms of cash assistance are more widely available to low income households than housing assistance. The primary cash aid programs are: Aid to Families with Dependent Children (AFDC), the basic income assistance program for poor families with children; Supplemental Security Income (SSI), the basic income assistance program for poor elderly, blind, and disabled people; and General Relief (GR), which provides cash assistance to certain groups not covered by AFDC or SSI, usually poor single individuals and childless couples that are not elderly or disabled.

The maximum AFDC benefit provided to a Los Angeles area family of three with no other income is now \$663 a month, or 72 percent of the federal poverty line. Yet the fair market rent for the Los Angeles area — HUD's estimate of rent and utility costs for a modest two-bedroom apartment in that area — is currently \$804 per month, seventh highest among metro areas nationwide. (Fair market rents serve as the rental standard in HUD's principal low income housing programs.) A family of three receiving the maximum AFDC grant could thus spend all of its grant on housing at the fair market rent and still come up \$141 per month short. Even if a three-person family were to squeeze into a modest one-bedroom apartment, the fair market rent for such an apartment — \$683 — would consume more than the entire AFDC benefit. Moreover, AFDC benefits are supposed to cover other household expenses such as clothing and transportation, along with housing costs.

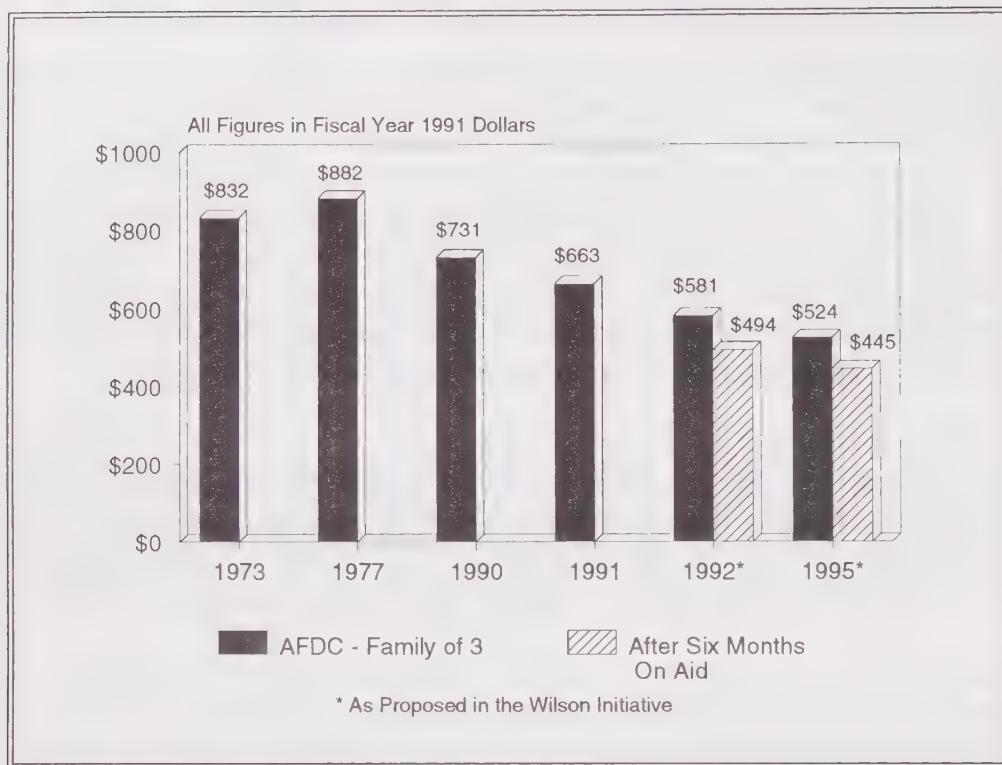
AFDC benefits fall well below the fair market rent both because rental housing costs have risen dramatically and because the state of California has allowed the value of AFDC benefits to fall substantially in purchasing power since the early 1970s. In 1975, by contrast, the maximum AFDC benefit for a family of three had exceeded the Fair Market Rent for a two-bedroom apartment in the Los Angeles area.

Although the state enacted a provision in 1973 to provide annual cost-of-living adjustments to AFDC benefits, the value of the benefits has fallen since the mid-1970s because the provision was fully or partially suspended in a number of years. Furthermore, to help close a budget deficit, AFDC benefits were reduced 4.4 percent in 1991 and the cost-of-living adjustment was suspended until 1996. As a result of these actions, the value of the maximum AFDC benefit for a family of three is now 20 percent lower in purchasing power — or \$2,028 lower on an annual basis — than in 1973.

A ballot initiative proposed by Governor Pete Wilson — The Taxpayer Protection Act — would reduce AFDC benefits further. Under the proposal, AFDC benefits would fall an additional 10 percent below current levels, and benefits would be reduced another 15 percent for families receiving aid more than six months. The provision of annual cost-of-living adjustments, already frozen until fiscal year 1996-1997, would be permanently repealed. Thus, after being reduced sharply, benefits could be frozen at their new, lower levels for some years to come. This would further widen the gap between incomes and rental costs for poor families in the Los Angeles area and make the affordable housing crisis still more severe.

Aggravating this situation, just one in every nine AFDC families in California — 11.6 percent — lived in public housing or received any form of housing assistance from the federal, state, or local government in 1990. This is the *lowest proportion of any state* and means that the vast majority of AFDC families in California must

Figure 3
AFDC Benefit Levels in California, 1973-1995



finance the full cost of private housing out of their AFDC grants. Nationally, 24.1 percent of AFDC families receive housing aid.¹⁰

Similarly, Supplemental Security Income benefits in California, while higher than AFDC benefits, are insufficient to meet the housing costs and other basic needs of the elderly and disabled poor. The maximum SSI benefit for an elderly individual who lives alone in the Los Angeles area and has no other income is \$665 per month in 1992. The fair market rent for an efficiency apartment in the Los Angeles area is \$562 a month. Thus, the cost of a modest efficiency unit at the fair market rent would consume 85 percent of the maximum SSI benefit.

Finally, Los Angeles County administers and funds a program called General Relief (GR), which provides financial aid to certain low income single individuals, couples, and families not eligible for AFDC or SSI. The maximum GR benefit for

¹⁰ Nationwide, 62.8 percent of all AFDC families rent unsubsidized housing in the private market. (The other 13 percent share group quarters, rent for free, or own or are buying a home.) In California, 85.9 percent of AFDC families — six of every seven — rent unsubsidized housing in the private market. U.S. Department of Health and Human Services, *Characteristics and Financial Circumstances of AFDC Recipients, Fiscal Year 1990*. These are the most recent data available.

single individuals, who make up the largest share of GR recipients, is \$341.¹¹ This assistance offers little relief in a market where the fair market rent for an efficiency apartment is \$562 — 65 percent more than the maximum GR benefit. Even the fair market rent for a single room occupancy unit — \$412 — would consume 21 percent more than the maximum GR benefit.

Low Income Housing Crisis National in Scope

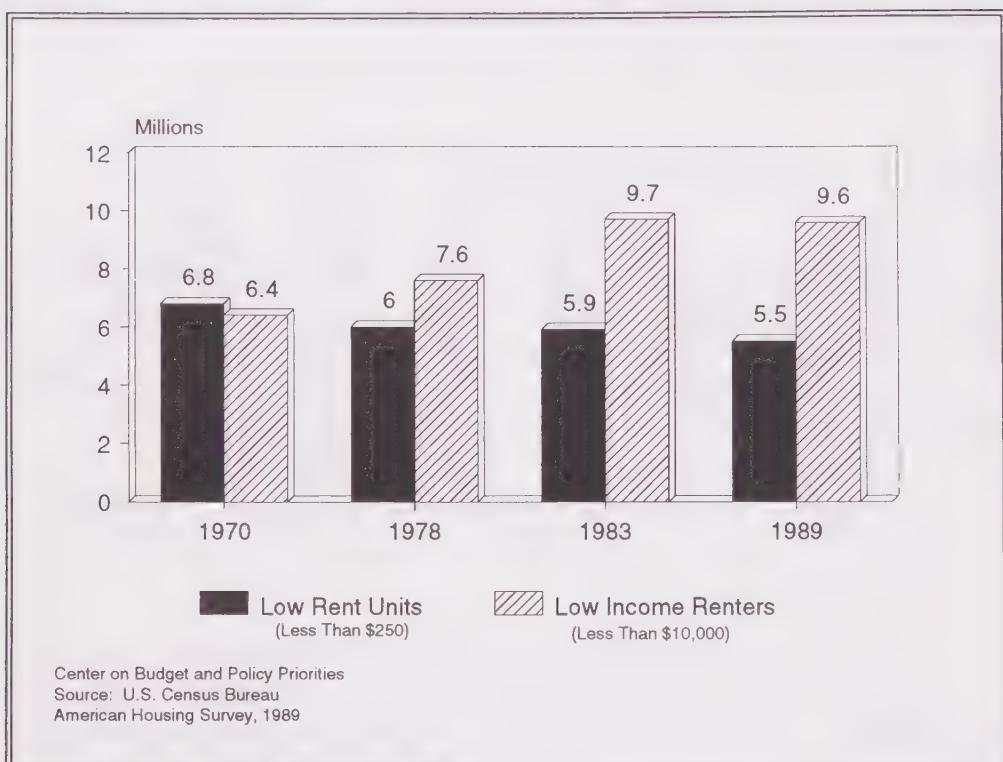
The portrait painted above is not unique to the Los Angeles area. While the low income housing crisis is particularly acute in Los Angeles, this crisis is national in scope, affecting poor households of all racial and ethnic groups in every region of the country. Nor is it solely an urban phenomenon; it affects rural and even suburban jurisdictions as well. And, as in the Los Angeles area, this pervasive national problem has grown more severe over the last two decades.

- In 1970, the number of low rent units nationwide — 6.8 million — was 400,000 *greater* than the number of low income renters, which stood at 6.4 million.
- By 1983, the number of low rent units had fallen to 5.9 million while the number of low income renters had surged to 9.7 million. As a result, a 400,000 unit surplus had turned into a 3.9 million unit shortage.
- Between 1983 and 1989, the number of low income renters edged down only slightly despite the economic recovery, while the number of low rent units declined even further. In 1989, there were 5.5 million low rent units, but 9.6 million low income renters. After seven years of economic growth, the affordable housing shortage stood at 4.1 million units — and was wider than at any time in the previous 20 years.

As in Los Angeles, the shortage of affordable housing nationwide compels most poor households to spend more than is considered affordable to pay for housing costs. In 1989, more than half of all poor renters nationwide — 56 percent, or 3.5 million households — spent at least 50 percent of their income on housing. An even larger proportion of poor renters — 81 percent — spent at least 30 percent of income on housing, thereby exceeding the federal affordability standards.

¹¹ General Relief recipients may be eligible for additional payments such as transportation and clothing allowances.

Figure 4
National Rental Housing Shortage for Households
Earning \$10,000 or Less, 1970-1989
(in 1989 constant dollars)



Despite this large need, only slightly more than one-third of all poor renters nationally receive government housing assistance. A HUD report published in June 1991 found that 5.1 million very low income renters had "worst case" housing needs in 1989 because they spent more than half of their income on housing, occupied severely substandard housing, or both, but received no housing assistance.¹²

This occurred because housing assistance is not an entitlement program in which individuals or families are entitled to benefits if they meet certain eligibility requirements. To the contrary, the number of eligible households that receive housing assistance is constrained by the amount Congress appropriates each year for housing programs. Consequently, applicants are often put on waiting lists and typically wait months or years before receiving housing assistance. Data from a survey conducted by the National Association of Housing and Redevelopment Officials indicate that more than one million households were on waiting lists for

¹² Federal low income housing assistance principally targets "very low income" households, defined as renters whose incomes are less than half the median household income in their area. Very low income families with "worst case" housing needs receive priority for federal housing assistance.

public housing at the end of 1988, and about 800,000 were on waiting lists for privately owned subsidized housing. In fact, these figures understate the backlog. The need for assistance in urban areas across the country so far outstrips what is available that many housing authorities have closed their waiting lists and no longer accept applications for aid.

Need for Increased Resources

To address a crisis of this magnitude, significant additional resources are needed, especially from the federal government. The resources made available should target the population that faces the most serious housing problems and is most vulnerable — the 5.1 million poor renter households that have "worst case" housing needs and yet lack any housing assistance. This can be accomplished by emphasizing programs that enhance the ability of poor households to find affordable rental housing, such as Section 8 certificates and vouchers, as well as to augment the stock of low rent housing through the HOME program and the Low Income Housing Tax Credit.

The federal Section 8 program, a centerpiece of national housing policy since the mid-1970s, subsidizes the rent that very low income tenants pay for private market housing. Tenants rent modest apartments and pay 30 percent of their income for rent; the local housing authority, using federal funds, pays the remainder of the rent.

A recent innovation in federal housing policy is the HOME Investment Partnership Program, authorized by the 1990 National Affordable Housing Act. HOME provides flexible grants to state and local jurisdictions to finance either rental housing or homeownership programs. Jurisdictions are given considerable latitude and can invest HOME funds in programs that assist tenants directly in finding affordable housing or that finance rehabilitation or new construction of low rent units.

The federal government's other principal instrument to promote the development of affordable housing is the Low Income Housing Tax Credit. The tax credit offers investors in low income housing a credit against federal income taxes based on the amount of their investment in the acquisition, rehabilitation, or construction of such housing.

Rather than bolster these programs, however, the Bush Administration's budget for fiscal year 1993 would cut the HOME program by more than half. It would also keep the supply of new Section 8 certificates and vouchers sufficiently

1990 Budget Enforcement Act Limits Funds Available for Housing

The Budget Enforcement Act limits total spending through fiscal year 1995 for programs that are not entitlements. The act establishes ceilings on the total amounts that can be appropriated for domestic non-entitlement programs in fiscal years 1992 and 1993. During these years, there are "walls" between defense and domestic non-entitlement programs that prevent any funds from being moved from defense to domestic purposes.

In the following two years, the walls between these spending categories are removed, and one overall ceiling is set for all non-entitlement programs — including both defense and domestic programs. This could allow funds to be shifted from defense to domestic programs. The overall ceilings for fiscal years 1994 and 1995, however, are extremely tight.

To comply with the caps for those years, total discretionary outlays will have to be reduced more than \$11 billion in FY 1994 — and approximately \$20 billion in FY 1995 — below the FY 1994 and FY 1995 levels assumed in the Congressional budget for FY 1993. Unless reductions of this magnitude are made in the defense budget, it will be virtually impossible to avoid a new round of cuts in domestic non-entitlement programs in FY 1994 and FY 1995.

These limitations are likely to prevent low income housing programs from growing significantly in the next few years and to intensify the competition among these housing programs for limited resources.

low that the number of additional low income households provided rental assistance each year would remain close to the depressed levels of the Reagan years.¹³

Instead of providing more resources for these programs — or in the case of HOME, even the same level — the Bush Administration would invest substantial resources to sell public housing to current residents through the Homeownership Opportunities for People Everywhere (HOPE) program. Although this program is the centerpiece of the Administration's low income housing agenda, it does not address the most serious low income housing problems in Los Angeles or other cities.

Because HOPE would target residents of public housing, it would primarily assist households that *already receive housing assistance*. It would do little or nothing to render housing more affordable for the households with "worst case" housing needs who lack any form of housing assistance. Moreover, a HUD evaluation of the

¹³ As discussed above, low income housing programs suffered some of the largest cuts of any domestic programs during the Reagan years. From fiscal year 1977 through fiscal year 1980, HUD made commitments to provide rental assistance to an average of 290,000 additional low income households each year. Since 1981, however, the number of additional housing commitments dropped to an average of 78,000 per year, a reduction of nearly three-fourths.

major demonstration program that tested the ownership approach found disappointing results. The evaluation showed that the tenant ownership programs which were tested primarily assisted households that were not poor. The households aided represented some of the best-off of those in public housing. The demonstration project provided strong evidence that homeownership is not viable for the overwhelming majority of public housing tenants, who lack the financial stability needed to qualify for a mortgage and the income needed to maintain a home.

- The average income of public housing residents in 1990 was \$6,539.
- But the average income of tenants purchasing their units through the demonstration program was \$16,673, or two and one-half times higher than the average.

The evaluation also found that only a tiny fraction of public housing residents in the demonstration areas had the financial resources and credit history necessary to purchase their units. In Los Angeles, one of the demonstration areas, only 70 of approximately 3,000 households in public housing satisfied the \$16,000 minimum income requirement. Furthermore, most of these 70 families either were not interested in homeownership or failed to qualify for private financing. *Ultimately, nine families — three-tenths of one percent of all public housing tenants — purchased public housing units.*¹⁴

The HOPE tenant ownership program the Administration touts is problematic for other reasons as well. It requires extremely large subsidies per household, thus draining limited resources from other low income housing programs and reducing the overall number of households that can be assisted. A General Accounting Office study found that HUD invested \$54,000 per unit to modernize the Kenilworth-Parkside project in Washington, D.C. prior to transfer of the project to tenant ownership.¹⁵ And this per-unit modernization cost excludes the large additional subsidies needed to help public housing residents afford mortgage, interest, insurance, utility, and property tax payments.

By contrast, a Section 8 voucher or certificate costs approximately \$6,500 per year. For each unit purchased by a non-poor household through a tenant ownership program, a far larger number of poor households could be assisted in finding affordable housing with a certificate or voucher.

¹⁴ William M. Rohe and Michael A. Stegman, "Public Housing Homeownership: Will it Work and for Whom?" *APA Journal* 145 (Spring 1992).

¹⁵ "Public Housing: Planned Kenilworth Parkside Sale Raises Issues for Future Transactions," *U.S. General Accounting Office*. December 1989, pp. 34-35.

The Administration's proposals to expand the HOPE program underscore these concerns. The Administration's fiscal year 1993 budget would allocate \$1 billion for HOPE. It would finance this expansion in resources for HOPE not by increasing overall funding for low income housing initiatives but by cutting other low income housing programs. The HOME program would be slashed from \$1.5 billion in fiscal year 1992 to \$700 million in fiscal year 1993. Similarly, the Community Development Block Grant program, which provides grants to urban and suburban jurisdictions to finance housing and economic development, would be sliced from \$3.5 billion in fiscal year 1992 to \$2.9 billion in fiscal year 1993, a reduction of 17 percent after adjusting for inflation. Paying for HOPE in this manner would reduce resources for programs that address the mismatch between incomes and housing costs that underlies the affordable housing crisis.

Conclusion

For poor households in the Los Angeles area, affordable housing has become something of a rare privilege. Nine of 10 poor households — including both renters and owners — spent at least 30 percent of their income on housing in 1989, more than is considered affordable under standards set by HUD. Many of these households paid large proportions of income to live in housing that was overcrowded or physically deficient. Despite these conditions, only one-fifth of all poor renters in the Los Angeles area received housing assistance from any level of government in 1989.

The housing crisis in the Los Angeles area is part of a larger crisis that confronts the nation. With a weakened economy, the low income housing problem is becoming still more severe.

To address the housing squeeze facing low income households, stronger action is needed. The housing conditions described in this report are unlikely to abate without substantial increases in federal funding for low income housing initiatives along with greater activity on the part of both state and local governments and the private and nonprofit sectors.

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